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Foreign Market Entry Considerations of Emerging Economy Firms: An Example of Pakistani Contractors

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Abstract

Past studies on contractor internationalization have adopted a single model approach. Responding to the call of some scholars, this study has been conducted by integrating several extant theories of internationalization. Our study has investigated the internationalization of Pakistani contractors. The features examined in this paper are motives, international markets ventured and locational factors. The data has been collected using a questionnaire survey. A quantitative approach has been adopted to examine the data from 84 Pakistani contractors registered with Construction Association of Pakistan (CAP). The results of the study showed that Pakistani contractors are more influenced by the internal motives rather than external motives. The main markets ventured by Pakistani contractors were United Arab Emirate, Saudi Arabia and Qatar. The study showed that surveyed contractors evaluate a wide range of factors before making the decision to enter the foreign markets. Further, it shows that size of market and potential economic growth are the major concern among the locational considerations.

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1. Introduction

Although mainstream of multinational contractors have origin from developed countries, the relevance of multinational contractors from developing countries is on the rise and becoming increasingly important, some of them becoming important global players [17]. The business environments of the home country and unattractive policies of government push the firms to go overseas and explore the opportunities abroad in more developed markets. By operating overseas, firms are able to counterbalance cyclical fluctuations in the domestic markets, sustain the growth, diversify their market portfolio and improve their competitive positioning [10].

Construction firms, playing a significant role in the global economy, are now exposed to newer challenges as they have to now compete within uncertain and expanding marketplaces [9]. These challenges though bring new opportunities for firms to reach new clients in a much larger degree, but they also have to face challenges like new business environment, host country laws and regulations, new rivals and different quality demands.

The objective of this paper is to examine the internationalization of Pakistani construction contractors. The features examined in this paper are the motives that drive firms to expand overseas, the international markets ventured and the locational factors considered before venturing in foreign markets. Internationalization of Pakistani Contractors has been chosen as a subject because of the need to provide recommendations for Pakistani Contractors to stabilize their businesses and operations.

The current study will contribute to the international business literature available on the subject which is already scares as far as the construction related service sector is concerned. It further adds to the literature on the internationalization of contractors from an emerging economy i.e. Pakistan. Using the data from 46 independent samples, this investigation is a comprehensive test of the most frequently examined motives, markets ventured and locational factors consider important for internationalization reported in previously produced literature.

2. Features of Internationalization

Internationalization of the firms is based on internal as well as external motivations. Internal motives are those that focus mainly on opportunities while external motives are necessary for the firm's survival. The international entrepreneurship theory holds up the top management as the key driver for firm's internationalization [14]. [16]identified that firm internationalize in order to gain profit. [7]found that firms expand into overseas in order to exploit abundant market opportunities available in foreign markets and also to take benefit of the resources present in the foreign markets. Small domestic market, severe competition, diversifying the risks, getting international experience and expanding the business networks are some additional motives for internationalization identified by various scholars [2, 6 and 19].

In order for contractors to internationalize, there are concerns as which countries to choose, how to enter in these countries or markets and kinds of regulations and business environment that need to be evaluated before entering into the identified markets of their choice [8]. [15]found that home government's support is a key factor which aids the international expansion of domestic firms.

The locational factors considered before venturing in overseas are addressed by two theories in international literature. These theories are Eclectic paradigm theory proposed by [4] and Liability of Foreignness (LOF) theory proposed by [20]. The Eclectic paradigm theory concentrates on positive attributes of the location whereas the LOF concentrates on the negative aspects. Different scholars have identified that firms internationalize in order to meet unexploited demands in the host market; proxies for such demand include population growth, size of market and growth of market [2]. Also, other scholars have documented the variety of hazards in the host country which include political and economical stability, policies for the foreign direct investment (FDI), labor cost, infrastructure quality, geographical distance, currency exchange rate, culture similarity and competition in host market [3, 11, 13 and 18].

3. Research Method

A triangulation approach has been used in this study which allowed the researchers to combine the results of quantitative data with qualitative in order to get more significant results. The triangulation approach of combining the quantitative with the qualitative methods is supported for capitulating new comings, harmonizing strengths and controlling inborn biases in the individual approaches [12].

A mailing list of 126 Pakistani contractors who have worked in overseas was provided by the Construction Association of Pakistan (CAP). The response rate of current research is 67 % as questionnaire was sent to a total of 126 firms out of which 84 firms have returned the completely filled questionnaire. The responses from the remaining firms could not be collected due to change in their official address or unwillingness to reply.

The questionnaire based on the previous literature was pre-tested through pilot interviews conducted with the Chief Operating Officer of CAP and executives responsible for the business development of the firms, all these interviewees have diversified work experience in international industry. Essential amendments based on the recommendations and feedback so received were incorporated which helped to refine the questionnaire. The final questionnaire was then sent to the sample firms. To obtain the content validity of the questionnaire, the contemporary approach developed by Schriesheim et al (1993) was used. The definitions of the each measurement item underlying the motives and locational considerations construct were included consistently at the top of every page. A 5 point Likert scale was used with 1 representing strong disagreement to 5 representing strong agreement in order to collect the data. The data so collected was then analyzed using Statistical Package for Social Sciences (SPSS). The Shapiro-Wilk test was run to analyze the normality of data. The results showed that the data was non-parametric. In order to measure the reliability, Cronbach's alpha test was used which indicated high level of internal consistency for our scale. Later, the responses were extrapolated based on the scale: 4.5-5.0 = very important, 3.5-4.49 = important, 2.5-3.49 = moderately important, 1.5-2.49 = less important, and less than 1.49 = unimportant. The same scale has been used by [1].

In the second phase of data collection, interviews were conducted with the top management including directors and general managers responsible for the business development of five different contractors. These five contractors gave their explicit consent to participate in interviews which were planned to start after the completion of questionnaire survey stage. Interviews were conducted in both English as well as domestic language with the surety of keeping the firm's and respondent's identity confidential.

4. Findings

The background of case firms can be viewed in Table 1. The surveyed Pakistani contractors had specialization in multiple fields which included Building and Civil, Petrochemical, and Electrical and Mechanical.

Table 1: Characteristics of the Surveyed Pakistani Contractors

Firm Specialization	Total firms that have ventured abroad	Total firms that responded the questionnaire	Response rate (%)
Building and Civil	40	23	58
Petrochemical	19	13	69
Electrical and Mechanical	21	16	78
Multi specializations	46	32	70
Total	126	46	67

Source: Postal questionnaire survey

The first stage of analysis was related to motives for the internationalization of contractors. These factors were taken from previous researches on reasons for internationalization. Questions relating to the internal and external motives were included in the survey instrument. Internal motives meant firm's own initiatives driven by its internal

management issues, needs, demands, goals, objectives etc. Whereas, the external motives meant the particular environment which triggered it to expand its operations beyond the domestic limits. The results of findings are presented in Table 2.

Table 2: Motivations for internationalization

Variable	Min	Max	Mean	SD	Remarks
To expand the business of the firm	3	5	4.67	.526	Very Important
To optimize the usage of firm resources	3	5	4.60	.587	Very Important
To increase the profit margins	3	5	4.50	.595	Very Important
To gain international experience	3	5	4.50	.634	Very Important
Competitive pressure	2	5	4.14	.926	Important
Top management decision	2	5	4.12	.705	Important
To diversify the risk	2	5	3.98	.897	Important
High demand of firm's services in foreign markets	1	5	3.95	.987	Important
To counter domestic business cycle	2	5	3.88	.861	Important
To increase market share	1	5	3.43	.914	Moderately Important
To be international anchor player	2	5	3.31	.811	Moderately Important

Four variables were rated as very important, the other five variables as important and the rest two variables as moderately important. Interestingly the internal motivations were rated as more important than the external motivations and played major role in the internationalization of Pakistani contractors. The highest ranked motive was to expand the business of the firm, followed by optimizing the usage of firm resources, increase the profit margins and gain international experience. One of the general managers illustrated that his firm was eager to increase profits for the next four to five years while serving his American client in Qatar simply to meet his long-term plan of establishing firm there. The managing director of another firm revealed that his firm did not have any definite plan on how to meet its strategic intent to expand the operations abroad, and got benefited with the opportunity as it rose. He further added that his firm has served as a sub-contractor to one of the Japanese construction firms in Pakistan during the year 2008, the CEO of the Japanese construction firm has called his firm's head of the business development for working in Saudi Arabia along with them. For the general manager of one of the newly established contractor firms in Pakistan, there was no choice left but to further expand its business in overseas due to the competitive pressure and declining demands in the domestic construction market.

The second stage of analysis was related to the markets ventured by Pakistani contractors. Questions relating to the past and current presence in international markets were included in the survey instrument. The results of international markets ventured by Pakistani contractors are presented in Table 3.

Table 3: International markets ventured by sample firms

Country	Nos.	Percentage
United Arab Emirates	42	22%
Saudi Arabia	36	19%
Qatar	26	14%
Afghanistan	14	7%
Oman	12	6%
Angola	6	3%
Malaysia	4	2%

The results above show the countries that the surveyed Pakistani contractors have ventured. Though the countries ventured by Pakistani contractors range from being adjacent to the distant, there appears to be gradual progression pattern in the way the surveyed Pakistani contractors expanded overseas. The surveyed contractors have major presence in United Arab Emirates (UAE), Saudi Arabia and Qatar which are geographically and psychically close countries as compared to the Angola and Malaysia located at distance locations. The interviewees explained that these countries were favorable and most suitable for their firms in a sense that these countries had good economic growth and sound profit potential, and geographically these countries were near to Pakistan thus costing less expense for mobilization of material, equipment and labors to these countries. Moreover being Islamic countries, these are culturally similar to Pakistan which facilitates communication and work over there. One of the directors revealed that “We can’t take a risk to do business into the neighboring country India due to the hostile relation between governments. Afghanistan cannot be tried also because of the ongoing war for decades which makes it unsafe and unfavorable for business. In the south, there are Middle East countries. These countries have similar Islamic culture and language which is connected to each other so it is convenient for us to work there. It is quite far for us to go to Europe or South East Asia, and there is quite much work to do in Middle East region. We must make the best use of our marketing dollars.”

The third stage of analysis was related to the locational factors considered important for working in foreign country. Questions related to the host market and industry related factors were included in the survey instrument. The results for locational considerations are presented in Table 4.

Table 4: Locational factors considered important for working in foreign country

Variable	Min	Max	Mean	SD	Remarks
Size of market	3	5	4.52	.594	Very Important
Potential economic growth	3	5	4.50	.595	Very Important
Potential for future projects	2	5	4.45	.670	Important
Opportunity to continue the work for long term	3	5	4.36	.692	Important
Strong foreign currency exchange advantage	3	5	4.26	.701	Important
Efficient infrastructure	2	5	4.00	.826	Important
Geographical closeness with our home country	2	5	3.81	1.042	Important
Culture similarity	2	5	3.62	.854	Important
Political stability	2	5	3.60	.939	Important
Cheaper labor cost	1	5	2.83	.935	Moderately Important

The table above lists the locational factors considered by the Pakistani surveyed contractors when venturing overseas markets. The surveyed Pakistani contractors rated a wide range of location factors as being “very important” (2 in all) and “important” (7 in all), indicating that many host country and host market related aspects have to be carefully evaluated before final decision was taken. Among these aspects, size of the market and potential economic growth of the country were ranked as very important and topped the list as one might expect. Without these fundamental demands related attributes i.e. size of the market and potential economic growth of the country, contractors’ investments and operations cannot take place.

One of the interviewees exposed that his firm particularly targets the emerging economies. The other interviewee mentioned that his firm targets the long-term business prospects in the respective markets; therefore, the key thing the management has to evaluate is the potential for future projects beside the size of the market and economic growth of the host country in order to operate and generate profit for long-term. Another interviewee working for civil contractor mentioned that his firm is one of the largest contractors in Pakistan and have to move capital in and out of the foreign markets, therefore his firm has to see whether the country has strong foreign

currency exchange rate or not, and in most of the cases the firm prefers to enter the Middle East markets as they have stable foreign exchange rate.

While the remaining factors had comparatively lower means, when coupled (from efficient infrastructure right down to political stability), can reduce the interest to operate in particular countries. Nevertheless, networks overcame various locational obstacles. One of the interviewee mentioned that risk is minimized when a firm uses the business networks. The culture similarity was rated as the second last important factor by the investigated contractors. The same interviewee working for the building and civil contractor mentioned that culture and language similarity could be an additional advantage but it is not such crucial locational factor given consideration before venturing in the host market as this barrier can easily be overcome by engaging the local staff in overseas markets. The recruitment of local staff not only overcomes the language barrier but is also beneficial at many stages including the financial proposals, award of the contract, on time delivery of payments, negotiation with the clients etc.

Of less concern to the surveyed Pakistani contractors when going overseas is the cheaper labor cost in the host countries. This was the only locational factor which was ranked as moderately important. One of the interviewee working for a electrical and mechanical contractor mentioned that cheaper labor cost is particularly less crucial as his firm mainly targets the emerging countries such as Middle East countries which lie in geographical vicinity. The labor in these targeted Middle East countries is quite expensive, whereas Pakistan has a huge amount of capable skilled as well as knowledgeable workforce which is able enough to convince the paymasters about the worthiness of their technical skills. The interviewee's firm has recruited a fair amount of Pakistani low wage workers in headquarter in Pakistan and mobilizes these workers from headquarter to the overseas projects. He further mentioned that, in few countries of Middle East like Saudi Arabia and Oman, firms had to appoint and rely on the local workforce as it is the requirement of these countries.

5. Conclusion

The findings of the present study can serve as guide and inspiration for the developing country construction firms. This paper demonstrates that construction firms having multiple specializations: building and civil, petrochemical, electrical and mechanical, can operate in overseas markets using different pathways open to them. Internationalization cannot take place without the conscious dedication of top management, even when unsolicited orders and favorable events prevail. The top management has to use its judgment to decide which pathways to adopt, the countries to enter and the location factors to consider. Evaluating the different options is a continuous affair as foreign markets are multifaceted and dynamic.

Various internal and external motives were identified that drove Pakistani contractors towards internationalization. Among these, internal motives played key role in pulling the firms to go overseas and search the opportunities abroad. The primary internal motives included expansion of the business of firm, optimize the usage of firm resources, increase profit margins and gain international experience. These motivating drivers found in our study are aligned with the motivating factors identified by [2 and 7].

The largest markets for Pakistani contractors were Middle East countries followed by African countries and lastly by Asian countries. The sampled firms had major presence in the United Arab Emirates, Saudi Arabia and Qatar. The study demonstrated that firms tend to expand in geographical close markets as it reduced the operating and overhead cost [13]. Last, the present study found that the sampled firms evaluated a range of locational factors before making any market entry moves, the most crucial were size of market and potential economic growth. The present study however provided weak support for cheaper labor cost in the host market.

The findings of the paper should be viewed in the limitation that only one emerging economy i.e. Pakistan has been taken into account and also the firms represented only one business sector i.e. construction industry. Therefore, the authors of the study call for future studies to be conducted which highlight the comparison and differences of internationalization process of contractors between different developing countries and different business sectors as well.

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